

Resilient H1 performance, compelling valuation

11th October 2023

Vp's H1 trading update confirms a resilient H1 performance, with supportive infrastructure demand offsetting the more subdued backdrop for general construction and housebuilding. The International businesses are trading well, demonstrating the benefit of the Group's diverse offering across specialist equipment hire. Vp's medium term prospects look bright under the leadership of new CEO Anna Bielby and we make no changes to our forecasts. In our view, the valuation is compelling, with the shares trading at a 50% discount to long-term average multiples (P/E of 6x versus long-term average of 12x).

Half year update confirms resilient performance

Vp traded resiliently through H1'24 against a backdrop of challenging macro-economic conditions, which impacted general construction and housebuilding activity, as previously communicated. Infrastructure demand remains supportive across water, transmission and rail, which are benefiting from long-term regulatory programmes (AMP7 for water and CP6 for rail). The Group's overseas businesses have traded well, at levels ahead of H1 2023.

Driving demand and delivering attractive returns

The Board continues to monitor the impact of weakness in certain markets but remains confident in the Group's ability to drive demand for its products and services and to deliver an attractive level of returns for shareholders, as it has done over many years.

CEO succession complete

Anna Bielby became Chief Executive on 1st September, when Neil Stothard retired. Anna joined Vp as CFO on 1st January 2023 following previous roles as interim CFO at Lookers plc, CFO of KCOM Group plc and director at PwC. The Group has commenced a CFO recruitment process.

High quality Group trading at 50% discount to historic average multiples

In our view, Vp's share price weakness over recent months overlooks the Group's impressive track record of long-term growth, high returns and the successful navigation of previous economic cycles.

With the shares trading at a 50% discount to historic average trading multiples, we maintain our Fair Value estimate of £10.90 per share.

Company Data

EPIC	LSE: VP.
Price (last close)	512p
52 weeks Hi/Lo	738p/482p
Market cap	£206m
ED Fair Value	1090p
Proforma net cash/ (net debt)	(£123.9m)
Avg. daily volume	28,000

Share Price, p



Source: ADVFN

Description

Vp is a specialist equipment hire business serving a wide range of markets including civil engineering, rail, oil & gas, construction, outdoor events and industry, primarily within the UK (83%), but also overseas. It has an excellent track record of revenue growth and high returns, and an attractive dividend policy.

Key markets are infrastructure (38%) construction (41%), housebuilding (8%), and energy (6%).

Next news: Interim results on 28th November

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Key Financials & Valuation metrics

Year-end March, £m	2020A	2021A	2022A	2023A	2024E	2025E
Sales	362.9	308.0	350.9	371.5	381.8	394.0
EBITDA	123.8	96.7	108.4	111.9	114.4	116.1
Adjusted PBT	46.6	23.2	38.9	40.2	42.8	45.2
FD EPS (p)	88.7	45.8	71.2	78.4	80.3	84.3
DPS (p)	30.5	25.0	36.0	37.5	40.1	42.2
Net Cash/(Debt)*	-159.8	-121.9	-130.6	-134.4	-123.9	-113.9
Net Cash/(Debt)**	-231.7	-178.7	-188.3	-192.9	-182.5	-172.5
Net Debt**/EBITDA	1.9x	1.8x	1.7x	1.7x	1.6x	1.5x
P/E	5.8x	11.2x	7.2x	6.5x	6.4x	6.1x
EV/EBITDA	3.5x	4.0x	3.6x	3.6x	3.4x	3.3x
Price/ TNAV	2.2x	2.3x	2.0x	1.7x	1.5x	1.4x
Dividend yield	5.9%	4.9%	7.0%	7.3%	7.8%	8.2%
FCF yield	8.8%	26.3%	7.1%	4.0%	11.5%	12.3%

Source: ED analysis, IFRS 16 basis unless stated *excluding leases (pre IFRS 16) ** including leases (IFRS 16)

Divisional forecast summary

Income statement						
Year-end March, £m	2020(A)	2021(A)	2022(A)	2023(A)	2024(E)	2025(E)
Revenue						
UK	331.0	281.3	320.2	333.5	341.8	352.0
International	31.9	26.7	30.7	38.1	40.0	42.0
Group Revenue	362.9	308.0	350.9	371.5	381.8	394.0
<i>Growth Rate</i>	-5.2%	-15.1%	13.9%	5.9%	2.8%	3.2%
Operating Profit						
UK	53.7	30.3	44.7	45.6	48.0	49.5
International	1.8	0.7	1.6	3.2	3.4	3.6
Group Operating Profit	55.5	30.9	46.3	48.8	51.4	53.1
Operating Margin						
UK	16.2%	10.8%	14.0%	13.7%	14.0%	14.1%
International	5.7%	2.5%	5.2%	8.4%	8.5%	8.6%
Group Operating Margin	15.3%	10.0%	13.2%	13.1%	13.5%	13.5%
Interest	-8.8	-7.8	-7.4	-8.6	-8.6	-7.9
Adjusted PBT	46.6	23.2	38.9	40.2	42.8	45.2
<i>Growth Rate</i>	0%	-50%	68%	3%	6%	6%

Source: Company actuals, Equity Development forecasts, IFRS 16 basis

We make no changes to our forecasts following today's update.

We anticipate continued growth over the forecast period, driven by supportive trends in infrastructure demand, as well as the positive demand within the International businesses.

To recap, our headline assumptions are as follows:

- Modest revenue growth in both forecast years (c.3%), with a slightly higher rate of growth assumed within the International division (positive trading performance within international confirmed in today's update);
- A small rise in operating margins in both divisions (13.1% at Group level in FY23 rises to 13.5% in FY24 and FY25), as the Group continues to focus on delivering attractive returns;
- PBT growth of 6% in both FY24 and FY25;
- 7% growth in the dividend in FY24 and 5% in FY25, with dividend cover maintained at 2x

Relative valuation and share price performance

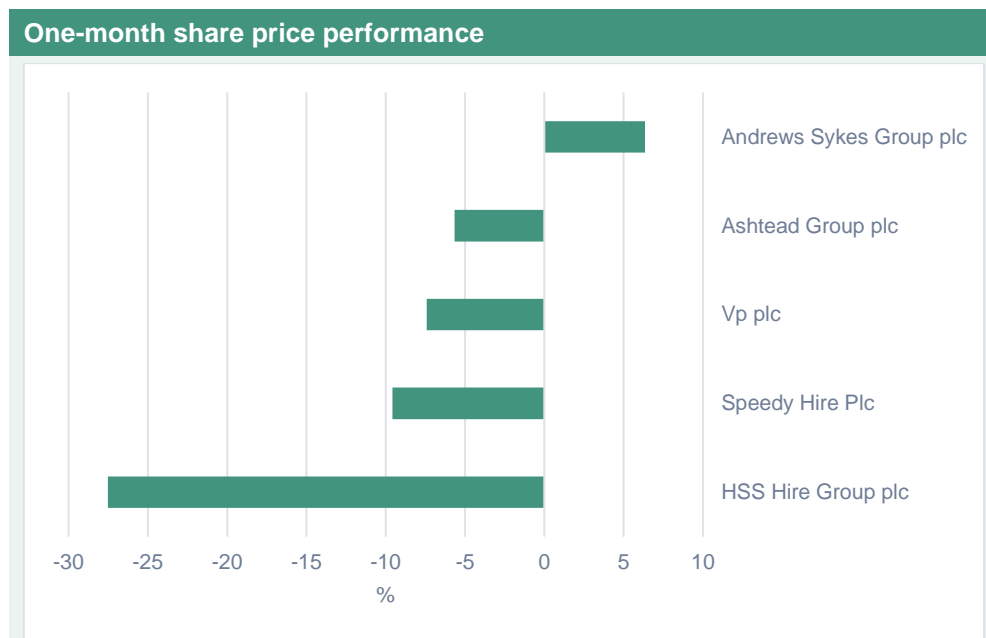
Vp currently trades at a marked discount to its immediate peers (see table below) and its historic average rating. Over the long term, the Group has traded on a P/E rating of c.12x and the valuation at today's share price represents a 50% discount to this level. The same discount applies on an EV/EBITDA basis, where a multiple of 6x is more typical (compared to just over 3x at today's share price). We note that recent sector M&A has also tended to take place at EV/EBITDA multiples of >6x, which provides further underpinning for our Fair Value analysis.

Peer group valuation metrics							
Company	Market Cap £m	Share Price £	P/E (FY1)	P/E (FY2)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	Div Yield
Ashtead	21,401	48.97	13.8x	12.3x	7.0x	6.5x	2.2%
Speedy Hire	142	0.31	5.9x	5.5x	2.9x	2.8x	10.6%
HSS Hire	68	0.10	8.0x	7.4x	2.8x	2.7x	7.1%
Vp	206	5.12	6.4x	6.1x	3.4x	3.3x	7.8%
Peer Average			8.5x	7.8x	4.0x	3.8x	6.9%
Average ex Vp			9.2x	8.4x	4.2x	4.0x	6.6%
Vp			6.4x	6.1x	3.4x	3.3x	7.8%

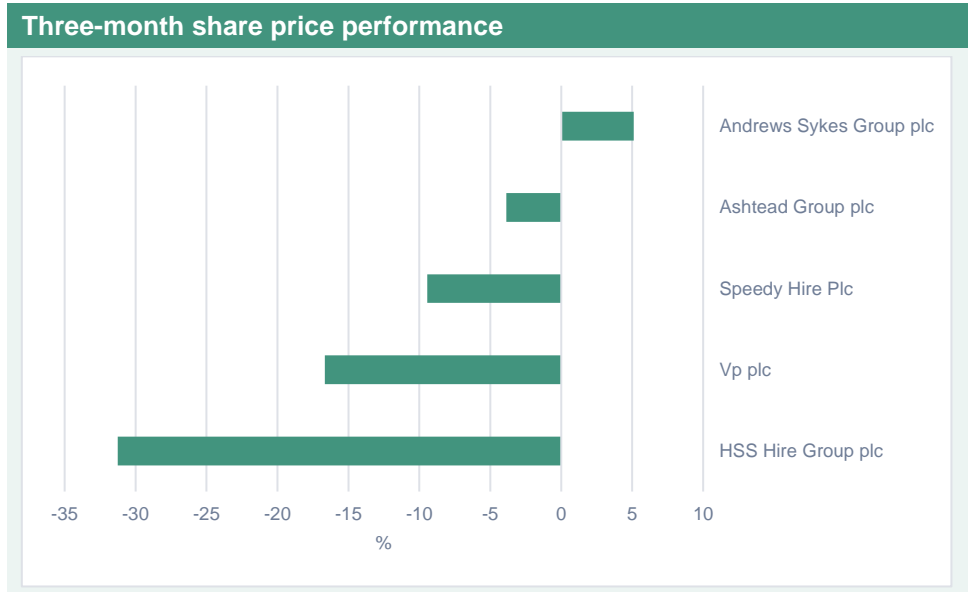
Source: Equity Development analysis

We maintain our Fair Value estimate of £10.90 per share, based on the Group's historic average trading multiples, noting the impressive track record of long-term growth, high returns and the successful navigation of previous economic cycles.

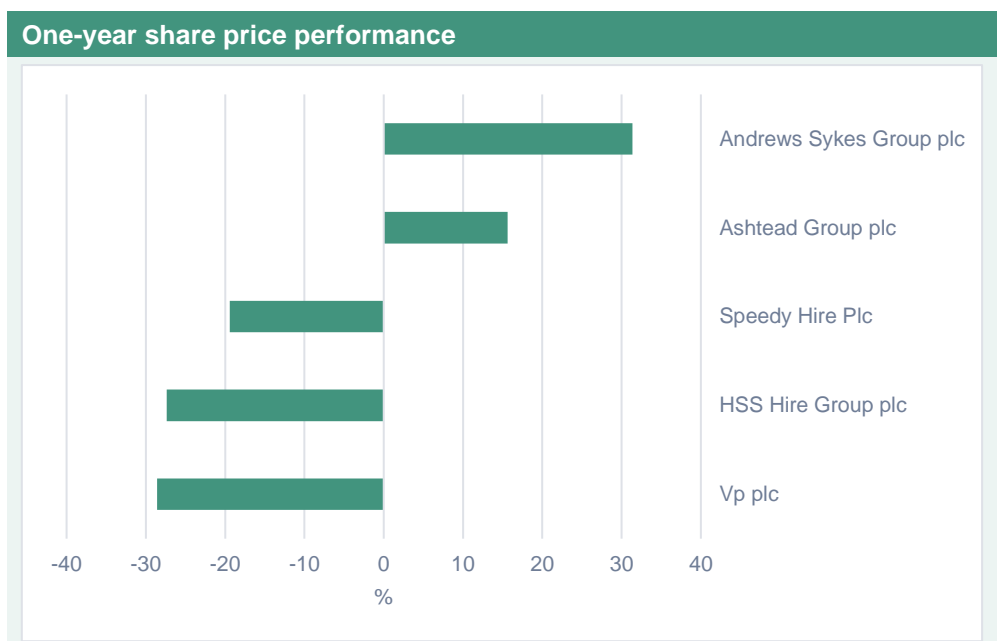
As highlighted in the chart below, Vp's share price has broadly tracked its UK peers over the past month but has underperformed peers on a three-month and one-year view (see charts on following page), which we consider wholly unwarranted.



Source: Equity Development, share prices to 9th October '23



Source: Equity Development, share prices to 9th October '23



Source: Equity Development, share prices to 9th October '23



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